

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Inland Revenue Incentive Fund for the year ended 31 December 2025 comprising the Statement of Financial Position as at 31 December 2025 and the Revenue and Expenditure Account, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018, My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2025, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Sub Section 16(1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Audit scope also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(i)	Section 99 of the Inland Revenue Act No. 24 of 2017.	Although the Inland Revenue Incentive Fund should be established in accordance with the provisions of the Act, the Fund has not been established in accordingly even at the end of the year under review.	Agreed and Inland Revenue Incentive Fund has not been practically established.	The Fund should be established in accordance with the provisions of the Inland Revenue Act.
(ii)	Public Finance Circular No. 01/2020 dated 28 August 2020.	The performance report of the Fund had not been submitted to the Auditor General within two months of the end of the financial year together with the approved financial statements.	Since the Inland Revenue Incentive Fund is not operational practically, performance reports are not prepared along with certified financial statements for the fund.	The performance report should be submitted to the Auditor General together with the approved financial statements within the prescribed period.

2. Financial Review

2.1 Financial Result

The financial result of the Fund had deteriorated from a surplus of Rs.2.41 million in the preceding year to a deficit of Rs.101.49 million in the year under review, indicating a decrease of Rs.103.90 million. This situation was mainly attributable to the increase in incentive expenditure by Rs.194.79 million, from Rs.941.65 million in the preceding year to Rs.1,136.44 million in the year under review, whereas the funds received from the General Treasury amounted to only Rs.1,093 million, which was insufficient to cover the expenditure incurred during the year.